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Chief, Technical Accounting Staff ✓

3 December 1954

Member, Technical Accounting Staff

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Reserve Fund

1. The subject regulation dated 19 July 1950 authorized the Chief, Special Support Staff, to establish a reserve fund for the purpose of providing against:

- a. Curtailment or elimination of sources of foreign currencies.
- b. Losses or depreciation of foreign currencies on hand.
- c. Urgent operational need for sterile U. S. dollars.
- d. Urgent operational need for gold or jewels.

2. The Comptroller has suggested preparation of a current regulation outlining policy, procedure and responsibility with respect to the Reserve Fund.

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3. A review of data compiled by the Regulations Control Staff in connection with promulgation of [REDACTED], although far from complete, revealed the following information.

4. An unsolved problem was the budgetary disposition of funds invested in foreign currencies, whether or not the amount so invested should be considered unexpended appropriations to be returned to the Department of the Treasury at the close of each fiscal year and charged against the succeeding year's appropriation and allocation to covert offices. A memorandum to the Executive from the Assistant General Counsel for Covert Affairs dated 15 March 1950, reads in part as follows:

"3. In Paragraph 2 of your memorandum, you refer to the still unsolved problem of budgetary disposition to be made of foreign currency or other fund inventories remaining on hand at the end of each fiscal year. That particular problem has been the subject of several discussions with the General Accounting Office.

a. The OSS raised the problem in 1944 with Mr. Lindsay Warren, the Comptroller General. In the file of this office entitled, 'Foreign Currency Exchange' (No. 230 A), there is a copy of a memorandum, dated 3 June 1944, from the General Counsel to the Acting Director. That memorandum reports the results of a conference held on 1 June 1944 between the General Counsel and the Comptroller General. The problem of disposition of foreign currency balances at the end of fiscal years was discussed in considerable detail. It was agreed by all concerned that OSS funds used to purchase foreign currencies for the purposes of conducting clandestine operations in foreign countries should be considered as having been

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'expended' at the time of such purchases, and there would be no need for any readjustment with respect to such funds between the appropriations for different fiscal years. It was pointed out, however, that an accurate profit and loss account should be maintained at the end of the fiscal year, and any loss could be viewed as an operating expense of that fiscal year. Any net profit resulting should be covered into the Treasury as a miscellaneous receipt. That could be done once a year at the close of the fiscal year. It was felt by Mr. Warren that the principal thing to be avoided was the use by OSS of the net profits.

b. In the above-mentioned file of this office, there is also a copy of a memorandum, dated 19 November 1946, concerning the same problem. That memorandum is addressed to the Director, CIG, from the General Counsel. The results of a conference with Mr. Fisher, General Counsel of the General Accounting Office, are reported. That conference was arranged in order to reaffirm the principle set forth in the previous discussion with Mr. Warren. Mr. Fisher generally concurred in the principle that when dollars were used to purchase foreign currencies they could be considered as expended at the time of purchase. The matter of good faith was brought out. It was pointed out that any large purchases toward the close of a fiscal year would give rise to the inference of intent to supplement succeeding fiscal year appropriations.

4. The purpose of the conferences mentioned above was not to secure an official ruling of the General Accounting Office but to secure the advice and guidance of individuals who were eminently qualified to advise on such matters. In view of the agreements reached, this office is of the opinion that the principle of not making year-end appropriation adjustments for foreign currencies on hand is well established and needs no further examination at this time from a legal standpoint."

5. A memorandum dated 17 July 1950, signed by George E. Meloon, Chief, Special Support Staff, called a meeting for discussion of the proposed Regulation, then in the formative stage, and referred to certain individuals invited to attend. The then Chief of SSS and another of those mentioned in the memorandum are unable to furnish any information at the present time with respect to the fund contemplated by the Regulation.

6. A memorandum dated 21 July 1950, from [REDACTED], Acting Executive to the Director of Central Intelligence, attaching changes in [REDACTED] reads in part:

"3. I wish to point out for your special attention [REDACTED] 'Reserve Fund.' We have on hand, carried over from SSU and not obligated or expended, a total of \$4,031,000 in cash, gold and jewels which has never been reported to the Bureau of the Budget, General Accounting Office, or to appropriation committees of Congress. This sum is in excess of any appropriations made for CIG or CIA, and has neither been augmented from such appropriations nor used for augmentation of appropriated funds."

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7. Under date of 24 July 1950, [REDACTED], Deputy Chief, Finance Division, addressed a memorandum to the Budget Officer describing the item of [REDACTED] appearing on CIA books as a credit to predecessor organizations. This paper was the basic memorandum in addressing a memorandum dated 10 August 1950 from the Director of Central Intelligence to Mr. William F. Schaub, Bureau of the Budget, requesting guidance in the disposition of the foregoing amount.

8. A Memorandum for the Record dated 18 August 1950, signed by E. R. Saunders, Budget Officer, reads:

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"[REDACTED] Finance Division, and the undersigned met Mr. [REDACTED] and explained the circumstances under which the amount of \$4,028,000 was accumulated from predecessor organizations, who stated he would discuss the subject further with Mr. Schaub and advise when a decision had been reached. Later in the day Mr. Per-Lee advised that the establishment of the amount as a Reserve Fund had been informally approved and that a notation to that effect had been placed on the Director's memorandum which would be retained in the Bureau's files."

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9. [REDACTED] dated 19 July 1950 was issued on 23 August 1950.

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10. On 23 August 1951 a second [REDACTED] was issued, rescinding 2.O.c(3) of Confidential Funds Regulation. No information is in the Regulations Control Staff file to explain this duplication of [REDACTED]. It does, however, support the opinion of Budget Division personnel that [REDACTED] authorizing the Reserve Fund had been rescinded in the far distant past.

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11. Further belief that the subject Regulation has been rescinded is the fact that the Special Support Staff was succeeded by the Covert Coordinating Committee, which in turn was succeeded by the Project Administrative Planning Staff. The latter has no responsibility with respect to the functions and responsibilities outlined in the subject Regulation.

12. An examination of general ledger account 450 "Operating Fund Acquired from SSU," reveals a balance of \$4,030,868.30 on 21 March 1950, and \$4,028,168.01 on 19 April 1950, which balances are referred to above in paragraphs 6 and 7 respectively. However, the account is not a "fund," it is an evaluation or surplus reserve, revealing a credit balance, offsetting the amount of net assets taken over from SSU by CIG.

13. The CIG general ledger is not available for inspection, having been sent to the Records Center. Audit papers in possession of the Audit Office indicate the journal entry recording the net assets taken over by CIG from SSU on 20 October 1946, as set forth hereunder:

	<u>Debit</u>	<u>Credit</u>
Foreign Currencies:		
Abroad	\$2,076,631.04	
In Washington	<u>135,365.26</u>	\$2,211,996.30

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DebitCredit

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U. S. Dollars	219,219.06	
Dollar Instruments	313,946.69	
Advances	145,331.41	
Special Commodity Assets	14,945.61	
U. S. Dollar Purchases		\$310,597.77
SSU Expenses assumed by CIG		1,672.13
Accountability for Net Assets transferred from SSU		4,115,612.97
	<u>\$4,427,882.87</u>	<u>\$4,427,882.87</u>

14. Inasmuch as the situation with respect to carrying stocks of foreign and domestic currencies at overseas installations has been clarified since the date on which  was issued, the regulation appears to be obsolete and should be rescinded. Furthermore the Agency has established a policy and practice of carrying substantial funds at overseas installations for the purpose of ensuring continuity of operations, with the knowledge of the Bureau of the Budget, independent of an authorizing or covering regulation. This function is one falling within the general responsibilities of the Comptroller, and although not specifically so enumerated in Regulation  paragraph 3 of Regulation  "authorizes the Comptroller to establish such special accounts and funds, including but not limited to . . . cached funds . . . stockpiling and exchange of foreign currencies as are needed to fulfill the mission of the Agency."

15. In view of the foregoing, it is the writer's opinion that  25X1A is inoperative, not applicable to current procedure, should be rescinded, and need not be replaced with a current regulation.

16. General Ledger Account No. 400, "Accountability for Funds Acquired from SSU" is in fact donated capital and as such the account might properly be eliminated by transfer of the balance to Account No. 450, "Invested and Donated Capital."

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